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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 000095

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SUBJECT: TRADE MINISTER PLANS LIMITED PDS REFORM IN 2008

REF: 2007 BAGHDAD 4062

Classified By: Economic Minister Charles P. Ries for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: Minister of Trade Abdul Falah al-Sudani met with EMIN and Econoff January 11 to discuss his plans for the Public Distribution System (PDS) in 2008. Notwithstanding recent calls in the Council of Representatives (CoR) for greater PDS funding, the Trade Minister expects to receive only the USD 3.27 billion included in the budget as approved by the Council of Ministers (CoM) and pending in the CoR. The PDS program may also receive USD 500 million supplemental later in the year. The Ministry will not be able to fund the PDS with commodity quantities at 2007 levels with forecasted 2008 prices for goods and shipping. He said he will try to stretch the 2008 PDS budget by cleaning up the beneficiary rolls and reducing ration quantities, as opposed to eliminating some items altogether. In succeeding years he expressed enthusiasm for means-testing and monetizing benefits while encouraging the private sector to meet the basic food needs of all but the poorest Iraqis. Al-Sudani spoke candidly about some of the PDS's inefficiencies but claimed that politics, bureaucratic regulations, and security challenges constrained his efforts to address them. Al-Sudani's interest in reforming the PDS should be welcomed, but such reforms will be politically sensitive and could complicate Iraq's already difficult path toward national reconciliation. END SUMMARY.

CUTTING BENEFITS AND BENEFICIARIES IN 2008

¶2. (C) Trade Minister al-Sudani plans to receive the USD 3.27 billion the CoM approved for PDS in the draft 2008 budget still pending before the CoR. He said that Finance Minister Bayan Jabr indicated that he might authorize a USD 500 million supplemental allotment for the PDS later in the year, depending upon Iraq's 2008 oil revenues. (NOTE: On January 08, CoR First Deputy Speaker Khaled al-Attiyya told us that CoR members wanted the PDS benefits basket to remain untouched, noting its importance to poor Iraqis. Al-Attiyya said the CoR had agreed with Finance Minister Jabr to fund the PDS in its current form. END NOTE.)

¶3. (C) Al-Sudani told EMIN that he will not be able to fund PDS in its current form with the draft budget approved by the CoM. He cited increases in both commodities and shipping prices. (NOTE: In December 2006, the Grain Board of Iraq paid roughly USD 222 per metric ton (MT) of wheat and USD 70-90 to ship the same from the United States to the Port of Umm Qasr; by December 2007, the analogous figures had increased to USD 400 and USD 175-205. Purchase and shipping prices for rice, powdered milk, and other PDS commodities have risen similarly. END NOTE.)

14. (C) Al-Sudani intends to make the most of his 2008 budget by trimming the rations of certain commodities in the benefits basket and cleaning up the beneficiary rolls. He claimed to have estimated the costs at USD 3.6 billion to provide beneficiaries the following reduced monthly rations:

ITEM	2008 RATION	2007 RATION
Wheat	6 KG	9 KG
Rice	2 KG	3 KG
Vegetable Oil	1 KG	1.25 KG
Dried Milk	125 G	250 G
Tea	100 G	200 G

Al-Sudani said that rations of sugar, infant formula, and other PDS items would remain untouched. He noted that CoR members have expressed they do not want items eliminated from the basket. Al-Sudani said he hoped the Ministry could procure 1.5 million MT of wheat as well as roughly two months of the PDS rice needs from Iraq's 2008 domestic crops. (NOTE: USDA forecasts a weak Iraqi wheat crop in 2008 because of poor rainfall in northern Iraq. END NOTE.)

15. (C) Al-Sudani claimed that he favors means-testing beneficiaries in the future but that doing so would be impossible in 2008 because insecurity has prevented the Ministry from conducting a census to ascertain recipients' incomes. Instead, during the first six months of 2008, the Minister intends to reduce the rolls by requiring all beneficiaries to re-register and provide a declaration of their wealth and income. Al-Sudani hopes that the re-registration process will help the Ministry identify the dead, duplicated, emigrated, and least needy. (NOTE: In separate conversations with the USDA Agriculture Counselor, al-Sudani suggested that wealthy Iraqis who do not need PDS

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rations would be reluctant to reveal their finances and thus select themselves out of the program. END NOTE.) He said the Trade Ministry has also contacted the Ministry of Labor and Social Affairs (MOLSA), the Ministry of Health, and the Ministry of Displacement and Migration for data about Social Safety Net beneficiaries, deaths, and migrs, respectively. EMIN noted that reducing the rolls would likely expose the Minister to charges of sectarian bias. Al-Sudani agreed and argued that he tries hard to respond to the needs of all Iraqis to deflect such criticism.

THE MOT'S LONG TERM FOOD SECURITY ROLE

16. (C) Al-Sudani said these near term measures would be the first steps toward the long term goal of significantly reforming the PDS. He stated that in the years ahead he hoped to monetize benefits, providing transfer payments that beneficiaries could use to purchase goods from PDS food agents. At the same time he said he wanted to encourage the private sector to assume a greater role in the importation of commodities; he said presently the private sector could not import the seven to eight million MTs of goods that the PDS requires. The end state of this long-term transition would be for the Ministry to supervise the storage of strategic food reserves--to help manage price shocks, droughts, shortages, and the like--and to provide a monetized, social welfare benefit for the poorest Iraqis. He said he hoped to integrate this latter function with MOLSA's Social Safety Net. He noted, however, that monetizing PDS benefits would itself be politically sensitive. Many beneficiaries report that they prefer the security of receiving benefits in kind instead of cash.

CANDID TALK ABOUT INEFFICIENCIES?

17. (C) Al-Sudani admitted that delayed payments to shippers

and suppliers, as well as adverse legal judgments arising from collection actions, had tarnished the MoT's reputation as a customer and was slowing the arrival of wheat and rice shipments for which the Ministry had already contracted. EMIN encouraged Al-Sudani to settle any existing legal disputes expeditiously to help restore the Ministry's reputation.

¶8. (C) Al-Sudani claimed that the PDS suffered most of its losses (he estimated 10 to 20 percent by volume) when goods traveled between distribution centers and food agents. He complained that criminal gangs and militias would steal such retail level shipments and, conspiring with food agents, sell PDS commodities in shops at market rates. He recounted that--once confronted and asked why the Trade Ministry supplies such poor quality wheat when high quality wheat was available in the shops--he protested in his defense "the high quality wheat in the shops is ours!" (NOTE: Critics of the Minister allege that he knows more about such criminal activities than he lets on; the head of the CoR's Integrity Committee has publicly called for al-Sudani to be investigated for corruption at the Ministry under his watch. END NOTE.)

¶9. (C) Al-Sudani also admitted that still comparatively volatile areas, such as Diyala, continue to complain that the truck drivers refuse to deliver PDS goods. EMIN asked why the Ministry did not pay truckers a premium to go to less stable areas, especially those where security circumstances had already improved, such as Anbar and parts of Baghdad. Al-Sudani complained that Ministry of Transportation regulations set the per-ton-per-kilometer rate at which the Trade Ministry can contract for trucking services, limiting his ability to offer such incentives.

¶10. (C) COMMENT: Al-Sudani presents himself as genuinely interested in reforming the PDS. He appears to recognize that the system is not sustainable in its current form. The CoR's discussion of the 2008 budget has attracted much attention to the PDS, the Ministry of Trade, and the Minister himself. A politician, he will likely ensure that, at the very least, he is seen to be doing something. His capacity to push reforms and address the system's deficiencies is, however, limited by legitimate and illegitimate interests. Even the modest reforms contemplated for 2008 will be politically sensitive and require a good deal of institutional capacity to implement effectively. Al-Sudani will also need to consider the risk of blowback any such reforms might provoke from criminals and militias that exploit the PDS's current inefficiencies. Reforming the PDS is unquestionably in Iraq's long-term fiscal and economic

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interests, but doing so may in the near term complicate the country's already difficult path toward national reconciliation. END COMMENT.
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